Economic Conditions
Governmental Finance
United States Securities

NEW YORK, SEPTEMBER, 1918.

Responsibility for the War.

IT is not the usual thing to take notice of anonymous communications, but although the individual author may be unknown, such letters are sometimes evidently representative of a group, and where there is reason to believe that this is the case the absence or presence of an individual signature is not the important thing. In the July number of this publication was reprinted an important statement by Mr. Morganthau, who in 1914 was the United States Ambassador to the Turkish Government, confirming by the testimony of Baron Wagenheim, the German Ambassador to Turkey, a statement by Prince Lichnowsky and others to the effect that the war policy of Germany and Austria-Hungary was determined upon at a conference held in Potsdam on July 5, 1914. In view of the plea that Germany is fighting a defensive war, it was interesting to have the accumulations of proof, that while all the rest of the world was going peacefully about its usual pursuits, the high powers of Germany and Austria-Hungary were conferring about the demands to be made upon Servia and fully contemplating the probability that those demands would result in a general European war.

A copy of the page carrying the Morganthau statement and a reference to the Lichnowsky statement has been returned to us, with the following comment pencilled thereon:

"This is beside the question; these statements from two discredited officials. The war became inevitable when the Morocco crisis showed that there was a conspiracy to humiliate Germany. There would have been war then if Germany had been ready financially. She waited her time and did not wait until it suited the Entente."

The writer of this is apparently sensitive under the charge of duplicity in so far as it relates to the July 5th conference, and yet he naively admits and justifies the policy of duplicity.

The Morocco Crisis.

The last Moroccan crisis occurred in 1911. In 1905 Germany had objected to the extension of French influence in Morocco, and at its instance an international conference upon the subject was held at Algerciras, in which thirteen nations, the United States among them, participated. Germany did not get all she wanted from this conference; only Austria-Hungary and Morocco sided with her. The conference, however, agreed upon a reaffirmation of the independence of the Sultan and that an open door should be maintained to all trade. In 1911 Germany protested that France was not observing the terms of the agreement and sent a warship into the harbor of Agadir. There was much war talk, and Lloyd-George made a speech at the Lord Mayor's banquet, in which he was understood to give notice that England would not stand by and see France attacked. The Kaiser was said to have called a conference of bankers and industrial leaders and asked them if they were ready for war, to which inquiry a negative reply was given. Large sums loaned in Germany by French bankers were recalled, creating a sharp crisis, which was alleviated by German loans in New York. The Kaiser was said to have told the German bankers that next time he asked that question he wanted a different answer.

The German Grievance.

It is unnecessary to go into the particulars of the German grievance. If the terms of the conference agreement were violated the matter concerned all of the thirteen powers, who were parties to the agreement, but the other powers displayed no interest and the differences between Germany and France were adjusted by themselves.

Doubtless our correspondent is well informed in saying that Germany felt aggrieved over the Morocco affair, and that war would have occurred then if she had been financially ready, for Von Jagow, formerly Secretary for Foreign Affairs, in his reply to Prince Lichnowsky, said:

Our Morocco policy had led to a political defeat. Happily this had been avoided in the Bosnian crisis, and at the London Conference. A fresh diminution of our prestige was intolerable for our position in Europe and in the world. The prosperity of States, and their political and economic successes, depend upon the prestige which they enjoy in the world.

This quotation of itself shows the dominating spirit of the German Government. Its pride was offended when all of the powers in the Morocco conference except Austria-Hungary and Morocco sided against it and with France, but, this alignment did not constitute a conspiracy against

either the dignity or security of Germany. There was nothing at issue in the Morocco situation which involved the vital interests of Germany or justified war.

Germany accepted a settlement, but "bided her time." The war in the Balkans broke out, and the European situation became exceedingly tense; the great powers were in almost continual conference for the avowed purpose of averting a general war, but Germany "bided her time." She sent Prince Lichnowsky in 1912 as her Ambassador to London and kept him there until the war broke out in August, 1914. If he was not the trusted representative of the German Government it was an act of perfidy to keep him there. He says that throughout his term of service the British Government labored constantly to maintain the peace of Europe and to satisfy the wishes of the German Government in all matters pending between the two governments. Von Jagow has virtually confirmed Lichnowsky's statements, admitting that in the most important question of all, the matter of the Bagdad railway, "we found the English Government ready to meet us," and that he believed in "Sir Edward Grey's serious wish to reach an agreement with us."

German Prosperity.

Meantime German trade was spreading without hindrance the world over. German traders and financiers, backed by the government and by offensive governmental policies practiced nowhere else, were penetrating and establishing themselves without opposition in all of the countries now said to have been in the "conspiracy" against Germany. England and the British colonies were an open field to them. They were as free to operate in London as in Berlin. They had the metal production of the British Empire so completely tied up in relations with German smelters that for more than a year after the outbreak of the war Great Britain could not get the use of the immense Australian lead production, and was dependent for her munition supply upon the production of the United States. The great textile industry of England was dependent on Germany for dyes, a fact of very great significance because the dye industry is intimately related to the manufacture of high explosives, which England had to develop from insignificant proportions after the war broke out. If the idea that neutrality forbade the United States to export war materials to a belligerent had prevailed Germany would have won the war in the first year because she was prepared, while her antagonists, and especially England, were not.

The seas and ports of the world were as free to German ships as to any ships in the world, and German shipping and German trade were growing faster than any other. Her trade opportunities in the great territories of Russia were superior to those of any rival, the Bagdad railway and the sweeping concessions which were carried by the Bagdad contract with the Turkish government, to which England had assented, were establishing her in a dominant position in western Asia, and she had a great colonial empire in Africa, besides her possessions in the Pacific and a foothold in China.

Nevertheless, as the world knows now, Germany was dissatisfied, and amid all of these negotiations and all of this unhindered development and prosperity, was only "biding her time." England ceded Heligoland, an island which in the hands of an enemy would be a grave menace to the German North Sea ports, as a token of friendly disposition; Germany and Austria-Hungary were allowed their own way with Bosnia and Herzegovina, but Germany did not have quite her own way in Morocco. There she considered her prestige impaired. She was affronted. The Morocco case furnished, she assumed, evidence of a conspiracy against her, and there was nothing to do but settle the question of supremacy at the earliest favorable opportunity.

Minority Opinion in Germany.

Of course we do not say or believe that all Germans have sympathized with the military party which has made the policies of the nation. No doubt there has been a minority element which has disapproved of the course pursued, but apparently its influence has been small. Germany lost heavily of independent spirits in 1848, and the government has controlled the universities and other sources from which, in other countries, liberal leadership is commonly expected. It is possible however to read between the lines of a recent editorial in the Berliner Tageblatt, edited by a recognized liberal, Theodore Wolff, and see that all is not perfectly harmonious there. He says in part:

> One ought not perhaps at present to discuss who has helped to prolong the war. But, as that has become the fashion, one cannot refrain from establishing the real facts. The principal contributors to the prolongation of the war have been those who contemplated America's declaration of war "with satisfaction" and "with relief," the people who filled Germany with a noisy agitation such as there has never been before, and shouted at their credulous public prophecies of which not a single one had been fulfilled. Doubtless it is the politicians, journalists, and agitators who started this dance that have co-operated most thoroughly in the prolongation of the war. The same politicians, journalists, and agitators, relying upon the general shortness of memory, are now again anxious to educate the people with their pomp and their noise.
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> When one reads over now their former writings and speeches, their proclamations, and promises one finds a strange assembly of people who never can be cured of their short sight. A book composed of nothing but such quotations would be attractive and instructive.

The same editorial characterizes the Brest-Litovsk treaty as "an extremely unhappy document." The truth seems to be that Germany had gained so much since the war with France in 1870 in position, prestige and wealth that the great body of the people were content to let the dominant military party, which had these achievements to its credit, continue to have its own way.

By this time even the Pan-Germans must be thinking that Germany was getting along in

quite a satisfactory manner while "biding her time." Nobody was preparing to attack her, or even thinking about attacking her, but by the activities of her own government she has procured declarations of war against herself from twenty-two governments, and every day sees a deepening of the world feeling of hostility. This is the outcome of having "bided her time," and picked a time which she thought was favorable. It is to be hoped that the lesson to all nations will be a lasting one.

The Financial Situation.

In normal times the fall demand for money is just getting into full swing on September 1st, but this year the seasonal requirements have come earlier, as a result of the early movement of the great wheat crop and the general inclination to be forehanded in replenishing stocks. The demand for the industries has been increasing through the summer, and money would be very tight if the supply was restricted to the old-time facilities, but with the spillway for demand into the reserve banks the pressure is scarcely noticeable to the public. Accommodations are obtainable for all approved purposes and interest rates are kept at a level which is artificially low, considered in relation to the demand for money, the general level of prices and the other conditions. The supply of "money" is increased to meet the demands by means of the credit machinery which has been provided.

We see no reason to expect that the demands will fall off or that the credit machinery will fail to take care of the new demands. As a result of the rapid movement of the wheat crop the sections in which it was produced will liquidate indebtedness and have some free capital, but the wheat will have to be carried somewhere until it is eaten, and the cotton crop is coming to market at the highest price level on record.

Moving Cotton.

Numerous conferences have been held and a voluminous discussion has been going on relative to marketing the cotton crop. The acceptance has been urged as a credit instrument well adapted to the cotton trade, but admirable as it is the acceptance cannot do everything alone. There should be public warehouse facilities to go with it, and while the South has been making good progress in this respect in the last four years, present storage capacity over and above what is occupied by the carry-over will not go very far in accommodating the new crop. Moreover, current prices for cotton are very high as compared with normal prices. Cotton may be worth 35 cents per pound, having regard for the demand there will be for it after the war; it may be good policy for the producer, or anyone who has the capital to spare, to carry it to realize on at that time, but that is a prospective situation, and a lender who has nothing in it but an interest charge at 4½ to 6 per cent. per annum will hardly care to lend on 35 cent cotton with an ordinary margin. Therefore, in order to distribute acceptances on a large scale, somebody must first buy the cotton and make a down payment of an amount in excess of the usual margin. This feature would be remedied if the price was stabilized by the Government as in the case of wheat, and there are advocates of this policy, but the fixing of an official price in view of all existing circumstances would be a very perplexing task.

In any event, it will require a great deal of credit to take the cotton crop out of first hands, and there is not much bank credit to spare in any part of the country, even for prime acceptances. Treasury certificates have the first call on all the lending capacity of the banks above what they feel obligated to reserve to their home customers. For this reason, it may be questioned whether a large distribution of cotton acceptances is practicable this year even with public warehouses provided. The argument for the acceptance is that it is an exceptionally mobile form of credit, which will flow into all the vacant spaces in the banking system, but when there are no vacant spaces the acceptance has no magic powers.

The fact is that the cotton crop requires less credit in farmers' hands than anywhere else, and while we grant that it is desirable to have an ample supply of credit to handle the business of the country in its natural movements, there are grave objections at this time to multiplying the floating volume of credits unnecessarily. All such credits are purchasing power and contribute to a general state of inflation, the effect of which is to raise wages and prices higher and higher. Agriculture is the one great industry in which the year's production is largely available for sale at one time, and if the entire agricultural output of this country was converted within a few weeks, at present prices, into cash, the situation, already over-stimulated, would be still more congested.

Limitations Upon Use of Credit.

It must not be thought that the Federal Reserve system and the War Finance Corporation, or any other agencies that may be devised for creating credit—or any additions to the gold reserves—will enable us to go on multiplying credits indefinitely without ill results. Bank credit, like paper money, is a facility which within limitations is useful in promoting production, but neither paper money nor bank credit can be used except to put the physical agencies of production into effective use. If the industrial equipment of a country is not working to full capacity; if land is going untilled for lack of labor while labor is without employment; if cattle are dying in one section for want of feed, or being forced upon the market in unfit condition, while in another locality there is feed for

sale in abundance; or wherever production may be increased by the use of agencies now idle, then credit may be profitably employed. But when all the physical agencies of production are already in full use the attempt to use more money or credit spends itself in driving up wages and prices.

Precisely that situation exists today. We say that high costs and high prices make it necessary to use more credit, but it is equally true that the expansion of credit facilitates the competition for labor and material which makes high costs and prices. It is the struggle among all the industries and all of the employers for workers and materials that puts up wages and prices. It is stated that "friendly representations" have been made by the skilled shipbuilding trades for an advance of wages to $1.00 per hour, with double-time after eight hours on "week days" and four hours on Saturdays, and 10 per cent. extra for the night shifts. It is claimed that the cost of living has gone up since the present wage-rate was established. Wages were made high in the shipyards originally for the purpose of attracting labor from other industries, and the other industries then raised wages in self defense. As wages go up in the war industries the consumption demand on the peace industries increases and the struggle for labor intensifies.

The Bureau of Statistics and Information of the New York State Department of Labor reports the average per capita weekly wages in New York State in June, 1918, at $20.44 against an average of $16.38 per week in 1917, $14.43 in 1916, and $12.85 in 1915.

Most of the industries are now short of labor to work all of their equipment, and under this condition the temptation to draw labor from other employments is very strong. Costs in the textile industries are higher than last year, but not so many yards of cloth will be made this year as last. Costs are higher in the steel and iron industry but production this year will be little if any greater than last. The industries are chasing themselves around a circle, stimulated and supported by credit and constantly getting farther from normal conditions, to which eventually they will have to return.

The increasing costs are inflating the national debt, which will have to be carried upon the basis of peace conditions, when it will take twice as much in labor and commodities to pay a dollar of debt as the Government receives now. Moreover, the people who individually get into debt on this basis, and who fail to clean up promptly may find themselves after the war facing the problem of meeting their obligations at the same two to one ratio.

The Rise of Loans.

We gave a statement last month showing that the loans, acceptances and bills discounted on hand in the twelve Federal reserve banks increased from $161,386,000 from July 20, 1917, to $1,378,346,000 on July 19, 1918. We now have to report that at the date of the last consolidated statement, August 23, they stood at $1,630,321,000. The increase, $1,468,935,000, represents loans passed up by the member banks of the system, and the loans on hand of national banks also increased from June 20, 1917, to June 29, 1918, in the sum of $808,000,000, not including Treasury certificates. Their holdings of bonds, Treasury certificates, etc., showed a net increase in the same time of $938,000,000, making a total increase in reserve banks and national banks of over $3,000,000,000. Figures for State banks and trust companies are not available.

On August 16 member banks reporting to the Federal reserve board held loans and investments other than Government securities or loans on same, amounting to $10,722,771,000 as against $10,004,162,000 on May 31, last. This is a rapid increase, and it is common knowledge that the member banks and state institutions outside of the reserve system are generally loaned up close, so that further additions to their holdings will have to be passed on, directly or indirectly, to the reserve banks.

The increase in loans since a year ago has much more than taken up the additional lending power which was created by the amendments to the reserve act lowering the reserve requirements of the member banks and by transferring gold and lawful money to the reserve banks. On August 22, 1917, the consolidated statement of the reserve banks showed a lawful reserve against demand liabilities of 82.6 per cent., and on August 23, 1918, of 56.7 per cent. Reserve percentages for the national banks no longer have any significance, as reserves are replenished at the reserve banks.

It is true that the present reserve is high, compared with the existing reserves of England, Germany and France, and with ordinary banking practice, but the countries named have been at war nearly three years longer than the United States, and it is well to consider where we will be even one year from now. Furthermore, the matter of chief concern is not the mere lowering of the reserve percentage toward what may be considered the danger point, but the influence already being exerted by these swelling bank credits upon the industrial situation.

One Billion of New Bank Credits in Three Months.

The increase of $383,000,000 in the loans of the reserve banks and $718,000,000 in the loans of member banks (the latter not including any Government financing) since June 1st, means that one billion dollars of new credit has been put into circulation in less than three months to do the work of money. This credit is new

purchasing power which will remain as a stimulating element in the industrial situation until it is retired by a corresponding reduction of bank loans. It is checked from one bank to another, performing the function of money, for each individual's credit in his bank account is to him the same as money.

The foregoing is descriptive rather than critical, for the individual banker hardly can be expected to take the responsibility of curtailing credit to his customers who are wanting it for apparently necessary purposes. The banker feels that he is rendering a patriotic service, but this multiplication of credit for all competitors instead of getting larger results simply determines who at last shall have the limited supply of labor and materials. The country is trying to use credit in excess of the physical capacity of its industries and some way must be found to hold this tendency in check other than by a general appeal to bankers to restrict loans to essential purposes. There is no end to the inflation that may take place for essential purposes if this competition for labor and materials goes on. The remedy must be found in more direct and effective control of the industrial situation.

Fourth Liberty Loan.

Thus far $2,759,541,500 of 4½ per cent. Treasury certificates have been sold in anticipation of the Fourth Liberty Loan, and the books will close September 3 on another offering of $500,000,000. The Secretary of the Treasury has also placed on sale a new issue of certificates, bearing 4 per cent. interest which will be accepted in payment for income and profits taxes. No limit has been named upon this issue. The certificates will be issued in denominations of $500, $1,000, $5,000, $10,000 and $100,000. Principal and interest will be exempt from all taxes except inheritance, income surtaxes and profits taxes.

The Fourth Liberty Loan will be opened on September 28. The amount has not been announced, but is expected to be $5,000,000,000 or $6,000,000,000. The rate will be 4¼ per cent. In view of the loaned-up condition of the member banks it now seems probable that there will be more re-discounting than for the other loans. Furthermore, inasmuch as business profits and personal incomes will be taxed for this year approximately twice as much as last year, reservations for this purpose are now being made, and presumably bond subscriptions from these sources will be reduced.

Broad Distribution Necessary.

In view of the situation the success of this loan seems to depend in larger degree than with either of the others upon wide distribution. There is good reason to believe that a greater number of small and moderate-sized subscriptions will be readily forthcoming. The result of the third campaign showed that where the country was thoroughly organized splendid results were obtained. This time the organization will be improved and the public will be still more interested and receptive. The splendid work that our troops are doing will give enthusiasm to the campaign. It must be borne in mind, however, that thorough, careful organization in every part of the country is absolutely necessary to raising five or six billions of dollars. The sense of personal responsibility must be felt by each individual, and he must understand that it is even more important now than heretofore that his subscription shall be met out of income and not by borrowing. Temporary borrowing is approved and the Treasury will arrange payment by installments, but the point should be clearly emphasized that in subscribing for bonds the subscriber is expected to actually turn over purchasing power to the Government and not seek to also use the purchasing power himself. When a person subscribes for bonds, and meets the subscriptions simply by borrowing, he fails to carry out his implied pledge to assist the Government to obtain war materials. He is giving an order for goods and reserving the right to use them himself.

Closer Economy Required.

The country does not even yet understand the vital relation which personal economy bears to the nation's effort in the war. The people are willing to do anything except reduce their personal expenditures. They will give their sons, brothers and husbands to the battle line, but do not see that in order to support them there with the full man-power of the nation, labor must be saved and released from its ordinary pursuits. The limiting factor in our efforts is man-power. We must save labor, save coal, save power, save shop-room, save railway capacity, at every possible turn, and as we do this we will find ourselves in funds to buy the bonds and stamps.

The Secretary of War has said that there are two alternative policies which may be adopted for the conduct of the war. One is to recruit our armies rapidly and throw an overwhelming body of troops upon the enemy within the coming year, forcing the war to an early termination; the other is to recruit the armies more slowly and protract the war. The Government is adopting the former policy, believing that it is more certain to bring victory, and that the cost in human sacrifice will be less than by a war running on for years. Public opinion approves of this decision, but does the public understand the changes which it requires in industry? These millions of men who are taken for the armies and the war industries have been employed in making things

for the market or in serving the public in one capacity or another. Their removal from these employments means that the supply of goods and services will be reduced and hence that consumption must be reduced. The problem is not primarily a matter of raising money for the treasury; it is chiefly a matter of releasing labor from supplying private wants, to supply the Government's wants. Obviously if this relief is to be obtained upon a great scale, the whole body of the people must participate, for they are the real employers.

We hear on every hand the argument offered, and usually accepted without controversy, that the wage earners or producers of a given class must have their wages or prices advanced sufficiently to keep them whole against the cost of all they have to buy. The logic of this is that every one shall have during the war everything that he had before, which, as we see, is physically impossible. It is inconsistent with the other work we have to do, that we should try to produce as much for private consumption as in times of peace.

The high and rising prices signify that we are persistently trying to do it. Every industry is striving to supply the private demands upon it, and reaching out for labor, coal, freight cars and materials which the Government industries need, and doing so in obedience to our private demands, expressed in our purchases.

Taxation and Bonds.

The administration's money-raising problem for this fiscal year contemplates practically doubling the receipts from both taxation and loans; that is to say, it proposes to raise approximately $8,000,000,000 by taxation and $16,000,000,000 by loans, as against nearly $4,000,000,000 by taxation and $8,000,000,000 by loans last year. The new revenue bill reported by the House Committee will probably bring in the $8,000,000,000 by taxation; that is comparatively easy with a first chance at the income of the nation; the important question is in what shape does it leave the field for the raising of the $16,000,000,000 of loans.

The bill is planned to obtain the bulk of the new revenue from business profits and the larger personal incomes, and it is obvious that this is levying upon the sources from which bond subscriptions have largely come in the past. We shall not argue over the advantage or propriety of making the rich pay by taxation instead of by loans; that is the point upon which some persons lay the chief emphasis, but to our view the point of chief importance is the necessity for raising $24,000,000,000 in all, against a little over $12,000,000,000 last year. It is evidently necessary to tap new sources of Treasury income, and this is where the new bill is weak. The surplus profits of business and the surplus incomes of the rich after the payment of taxes, have been going into the bonds, and will now be diverted largely to the other channel. This will save interest, but does not give the Treasury more money for this year's use. The so-called luxury taxes, and most of the other taxes are directed at the same pocket-books. The levy of taxation is not broad enough to produce important revenues from new sources, and if the bill becomes a law in this form the undertaking to raise $24,000,000,000 in the year will depend for success upon a great increase of bond subscriptions from people who are practically exempt from taxation.

The policy of the bill reflects the fallacy that the incomes of the rich if converted to public uses will solve all problems. The trouble with this idea is that the incomes of the rich in the main are already applied to public uses; in normal times they go back into industry and at this time they are largely needed there. If all the money which the rich spend on themselves was turned into the Treasury, and all of the man-power which the rich employ for their own private support and pleasure was released to the Government, the results would be insignificant compared with the Government's needs at this time.

The levy of a few consumption taxes of broad application would bring in a large amount of new money, and so far as it served to enforce economy and restrict consumption would also serve to relieve the congestion in the industrial situation.

Centralized Powers Under Federal Reserve System.

The July number of the Federal Reserve *Bulletin* says that three times during the month of June the Board exercised its authority to require certain of the reserve banks to take over short-time paper from the others, thus, as it says, "equalizing resources." From January 1 to June 30, this year, such operations were as follows:

(In thousands of dollars.)

Rediscounted or sold by the Federal Reserve Bank of—	Discounted bills rediscounted	Acceptances sold	Total.
Boston	.....	18,936	18,936
New York	.....	75,816	75,816
Richmond	21,028	32,830	53,858
Kansas City	8,530	.....	8,530
Dallas	5,003	2,995	7,998
Total	34,561	130,577	165,138

Penalizing Efficiency.

No one has stated the fundamental difference between the taxation of war profits and the graduated taxation of profits upon invested capital more clearly or concisely than Secretary McAdoo has done in one of his communications to the House Committee on Ways and Means. We quote as follows:

The distinction between a war profits tax and the excess profits tax is not a matter of form, but of substance. By a war profits tax we mean a tax upon profits in excess of those realized before the war. By an excess profits tax we mean a tax upon profits in excess of a given return upon capital. The theory of a war

profits tax is to tax profits due to the war. The theory of an excess profits tax is to tax profits over and above a given return on capital.

A war profits tax finds its sanction in the conviction of all patriotic men, of whatever economic or political school, that no one should profit largely by the war. The excess profits tax must rest upon the wholly indefensible notion that *it is a function of taxation to bring all profits down to one level with relation to the amount of capital invested, and to deprive industry, foresight, and sagacity of their fruits.* The excess profits tax exempts capital and *burdens brains, ability, and energy.* The excess profits tax falls less heavily on big business than on small business, because big business is generally overcapitalized and small businesses are often under-capitalized.

The war profits tax would tax all war profits at one high rate; the excess profits tax does, and for safety must, tax all excess profits at lower and graduated rates. Any graduated tax upon corporations is indefensible in theory, for corporations are only aggregations of individuals, and by such a tax the numerous small stockholders of a great corporation may be taxed at a higher rate than the very wealthy large stockholders of a relatively smaller corporation.

This is an accurate and unanswerable statement, and gives complete recognition to the services and deserts of the low-cost producer.

It is true that the Secretary favors the continuance of the graduated excess profits taxes, upon about the present scale, but there is justification for this attitude in the extraordinary emergency confronting the Treasury. In the midst of a terrible war, when there is need to use all of the available resources of the country, it is conceded that the government must look for money where it can be had, and cannot be held to strict theories of taxation. Nevertheless it is desirable that sound economic principles shall be recognized, even though for a time it seems necessary to transgress them. The country is willing, even against its judgment, to accept in good spirit almost anything in the way of taxation, or business regulation, or labor adjustments, for the sake of winning the war, provided it is understood that such methods are adopted for the war time only and are impracticable as permanent working conditions.

The alarm that is felt over some of these innovations is due to the evident fact that there is an element of the population, with representation in official life, who would like to take advantage of present conditions to commit the country to policies which would have no chance of adoption in ordinary times.

The Law of Social Progress.

The final test for all these innovations is whether or not their effect is "to deprive industry, foresight and sagacity of their fruits." If so, they are not only unjust to individuals but harmful to the whole social body, because they will retard the natural progress in industry by which the general amelioration of society is accomplished.

The most powerful agency for this progress is individual ambition and initiative. Men will strive and sacrifice for the sake of becoming forehanded and successful themselves and to make the lot of their children pleasanter and more hopeful than their own. Their successful labors accomplish results not only for themselves but for others. Society is carried forward by the efforts of its individual members. Their discoveries, inventions, devices, ideas, and achievements become the common property of the community. Their individual gifts and peculiarities, and the stimulus of varying environment and outlook, enrich the common experience and promote the common progress. Society in its proper desire to maintain equality of opportunity for all must beware of all that class of regulations which would restrict the opportunities and deaden the initiative of all. The best results for the millions are not to be had by a leveling process which takes away the rewards of individual effort, but by policies which foster and stimulate individual effort and development.

It is common knowledge that in misgoverned countries like Turkey, where taxation is oppressive and property holdings are insecure, there is little enterprise or progress, and living conditions among the masses are far below what they are in lands where property rights and personal rights are alike carefully protected. It is also true that in the newer and rapidly developing countries, like the United States, where the chances of individual advancement are better than in the older countries, ambition and initiative are more commonly displayed in the rank and file of the population than in the older countries, the people are more receptive to new ideas and industrial progress is more rapid.

It is fundamental that the individual shall be allowed to gather and enjoy the benefits which result from his own forethought and efforts, and this is just as true when a man has become a capitalist on a large scale as when his capital consisted of a set of tools or a quarter section farm. It may have become less important to him that his efforts shall be stimulated, but it has become of greater importance to the community, because his ability to serve the community has increased. He has the means, the experience and personal efficiency to accomplish much more than at the beginning of his career, and it does not follow that he will consume the benefits of his increased productive capacity, or that his enjoyment will be exclusive. That is never the case. Whether he wills it or not, the benefits are widespread.

Only that portion of his income which the owner spends upon himself and his dependents is devoted to him or them. All of the rest is devoted to the public as completely as though the title of ownership was in the State. The individual may toil, study, contrive and save, but all that he saves inures to others. He has the satisfaction that comes with effort and achievement, the sense of security in his advancing years, and of having made provision for loved ones. These are great satisfactions; men will always labor and sacrifice for them, but they are purely subjective rewards, which

cost the community nothing, while furnishing the chief incentive for the exertions which carry the world forward.

Ford in Mexico.

It is announced that Henry Ford intends to establish several plants for the manufacture of his tractor in Mexico. The plans for the first one call for the investment of $1,000,000, and Mr. Ford states that the profits from the Mexican business will not be taken out of Mexico, but invested for the development of business in that country. This will be good news there if the people understand the benefits which come from the development of stable industries. Mr. Ford does not personally need any income from the Mexican plants. They will be worth much to Mexico but nothing to him, in any material or economic sense. He will be gratified if they prosper and disappointed if they do not, but Mexico's stake in the enterprise is more tangible and vital. Of course Mr. Ford's policy in investing surplus profits for the development of other or larger business is the common policy of business men. But for the profits of the automobile business there would be no Ford tractor plant in either Mexico or the United States.

It is pertinent in this connection to speculate upon what the progress of Mexico would have been in the last seven years, and especially in the last four years, if there had been no revolution, and order and protection to industry and investments had been maintained. The country is a storehouse of the raw materials needed in industry the world over, besides having large capacity for food production. It had in 1910 a population of 15,000,000 people, lacking the capital and industrial experience to utilize these resources even for their own use. The people needed industrial organization, leadership, and to be supplied with equipment. Development was then under way, millions of foreign capital had been invested and its investment had created employment for thousands of the Mexican people. Wherever this had occurred the condition of the people was rapidly improving. Wages were advancing, schools were multiplying, and the standards of living were rising. Nobody would say that social conditions were all that could be desired, but it meant much that they were improving.

The war would have given an enormous impetus to Mexico's development. There has been a world shortage of silver, copper, lead, oil, sugar and other products of the country, the output of which might have been greatly increased in a state of peace. The resources were there, the labor supply was there, and conditions were such that capital would have poured into the country from the United States as never before. There would have been work for every man and woman who could be induced to work, and at wages never before approached in Mexico. The country would have had an industrial experience revolutionizing in its influence. Not only would the newly-imported capital have established permanent industries, but the profits of these industries would have been likewise invested, every dollar of capital creating new demands for labor. The buying power of the Mexican people would have been doubled, thus opening new opportunities in all the home industries and stimulating the energies and faculties of the people.

Unfortunately, Mexico during the last seven years has been in the throes of revolution. Destructive instead of constructive influences have had sway. No doubt real grievances existed under the old regime and many participated in the revolution from honest and patriotic motives, but the lesson of these seven years of disorder is none the less impressive.

The Spread of Radicalism.

There has been much talk to the effect that a great wave of socialistic sentiment is likely to sweep over all countries after the war, reorganizing industry, socializing wealth, equalizing incomes, etc., etc., but instead of the world being inoculated with radicalism from Mexico and Russia, there now seems to be a much greater probability that it will be warned by their fate. The excesses of the French revolution had a reactionary influence in other countries which lasted for years, although the uprising of the French people against the oppression they had endured is recognized as a great historic movement for human liberty.

There is a great difference between a co-operative attitude toward the natural evolution of society and the crude radicalism which has no conception of the processes of development and would reform society without regard to them. We may hope, indeed, for better conditions after the war, because there is reason to believe that much will have been learned from the war-time experiences and that therefore we will have a more efficient society. All classes have something to learn, and the most important lesson for each is to try to see the situation from other viewpoints than its own, studying the common interest. It is only as the common interest is advanced that any class can make progress.

Common Ground.

The leaders and members of the I. W. W., to the number of 100, who have been on trial at Chicago for conspiring to obstruct the war efforts of the national government were promptly found guilty by the jury. These people had set up a little government of their own which they were trying to make superior to the Government at Washington. They profess devotion to democracy, and to be seeking to estab-

lish equality among men, but instead of being willing to submit their proposals to popular judgment at the ballot-box, where the vote of an I. W. W. will count for precisely as much as that of any other citizen, their policy is to compel the adoption of their views by acts of disorder. Their leading tenet is that "the working class and the employing class have nothing in common."

Against this revolutionary doctrine it is gratifying to be able to quote from the Secretary of Labor, the Hon. William B. Wilson, himself for many years of his life a coal miner by occupation, and always active in the official circles of organized labor. Speaking of the labor situation in this country and particularly upon the I. W. W. agitation, in New York City recently, Secretary Wilson said:

> Labor and capital have a mutual interest, not an identical interest, but at least a mutual interest, in securing the largest possible production with a given amount of labor. The more there is produced the more there is to divide between capital and labor.
>
> One great reason why the American wage worker has been able to maintain a higher standard of living than the standard of living of wage workers anywhere else in the world has been because of the fact that the American wage worker produces more than any other wage worker in the world, notwithstanding the much advertised efficiency of the German workmen.
>
> If these people had succeeded in impressing upon the workers of the country that philosophy of sabotage and striking upon the job, reducing production—if they had reduced production to the point that existed prior to the introduction of machinery—the only thing that would have resulted would have been a lowering of the standard of living of those who were doing the actual physical labor. In the old days, before the rebirth of the inventive genius, when everything was produced by hand, when there was a lower standard of production than could possibly come from any system of sabotage they could now introduce, there were still profits for the employer, but the workers had a very much lower standard of living.

Upon this platform it is possible to have cooperation among all classes to forward the common interests of society. There is recognition of the fundamental fact that the way to improve social conditions is primarily by increasing production, and of the further fact that intelligence, skill, organization, self-denial, savings, capital, are factors in production to be recognized and rewarded. When these principles are agreed upon not much is left to contend over. It is true that disagreements will arise between wage earners and employers, as disagreements in the business world will always arise, but the basis for agreement exists and no basis for a class conflict remains. Every dispute and policy is brought to an agreed test—the test of its effect upon production—in which they have a mutual, if not identical, interest.

Under the division of labor men distribute themselves in the various occupations and exchange products, because the total product is greater than it could be with each person trying to supply all his own wants. There may be, however, a degree of conflict between the interests of workers in different occupations. The farmers may think that they do not get enough of other products in return for feeding the community, the coal miners may think they do not get enough for keeping it warm, or the shoemakers may think they do not get enough for keeping it shod; they may haggle and bargain about the proper value-relation between wheat, coal and shoes, but while their interests are not identical they have a mutual interest that wheat, coal and shoes shall be produced by the most economical and efficient methods. This is the situation as to the whole industrial organization and all the factors of it.

The Bond Market.

The outstanding feature of the bond market for August was the continued strength of the foreign government issues. The Anglo-French bonds, the United Kingdom issues, the Government of the French Republic 5½s, the American Foreign Securities 5s, City of Paris 6s, Bordeaux, Lyons and Marseilles 6s, and the Russian Government issues have all sold at the highest prices reached for several months. The strength of these foreign issues reflects investment buying in large volume, much of which is absorption of the best character. Back of this buying, of course, is the increased confidence caused by the continued success of the Allied arms in France. The Russian bonds have been more directly affected by the collapse of the Bolshevik movement and the hope that German propaganda in Russia may be checked and the eastern battlefront reestablished by Allied forces.

Another interesting feature of the market has been the continued strength of the railroad, industrial and public utility issues maturing within ten years which have been put out within the last few months. These issues include the Union Pacific 6s, Proctor & Gamble Notes, Bethlehem Steel Notes and American Telephone & Telegraph 6s. Coincident with the strength of these securities has been the rapid and successful sale of other similar issues maturing within a few years. These include $3,000,000 Graton & Knight Manufacturing Company Serial 7s, $6,000,000 Moline Plow Company Serial 7s, $10,000,000 Duquesne Light Company (Pittsburgh) Three Year 6s, $5,000,000 American Cotton Oil Company One Year 7s, and $2,100,000 Potomac Electric Power Company Five Year 6s. The bankers who handled these issues report not only a demand from institutions but widespread buying by individual investors as well.

Following are other important issues:

$3,750,000	Amalgamated Sugar Co. 7% Serial Bonds due August 1, 1919-23 at prices to yield 7.50% to 7.90%.
1,750,000	China Mail Steamship Corp. of California 7% Bonds due July 1, 1919-21, at prices to yield 7½%.
6,000,000	Cities Service Company 7% Debentures due January 1, 1966 at 102½ and interest.
1,250,000	East Bay Water Company 6% Notes due August 1, 1923, at 98 and interest, to yield about 6½%.
1,500,000	Hydraulic Power Co. of Niagara Falls 5% Bonds due October 1, 1951, at 89 and interest, to yield about 5.75%.
3,500,000	Hydraulic Pressed Steel Co. 7% Notes, due July 1, 1921, at 97% and interest, to yield about 8%.
1,500,000	Nashville, Chattanooga & St. Louis Ry. 5% Bonds due April 1, 1928, at 95⅓ and interest, to yield 5.60%.
1,000,000	Pierce Pipe Line 6% Notes, due 1919-1920 at prices to yield about 7% to 7½%.
1,250,000	United Light & Railways Co. 7% Notes due April 1, 1923, at 96 and interest, to yield 8%.
1,581,000	West End Street Ry. 7% Bonds due August 1, 1924, at 102.45 and interest, to yield about 6⅓%.

The municipal market during August has been in a very confused state owing to the discussion as to taxing the income from municipal securities. There are two plans being considered—first, that all new issues of municipal bonds except those issued for refunding purposes be made taxable. All old outstanding municipal issues would retain their tax exempt privilege under this plan. This suggestion caused a strong demand for municipal bonds, especially of the larger cities, United States Liberty 3½s, Federal Land Bank bonds and territorial bonds. Second came the suggestion that all municipal bonds be classed for taxation purposes the same as the Liberty 4s and 4¼s, that is, exempt from normal taxes and taxable for surtaxes. In the opinion of eminent counsel, however, any tax upon the income from state and municipal bonds would be unconstitutional.

The United States Liberty 3½s have sold as high as 102½, a 3.375% basis, and the Federal Land Bank 5s have sold as high as 106⅛, a 3.65% basis.

Following are the most important offerings:

$ 308,750 Buffalo, New York, 4½% Bonds, on a 4.50% basis.
500,000 Cleveland, Ohio, 5% Bonds, on a 4.625% basis.
303,000 Columbus, Ohio, 4½% Bonds, on a 4.55% basis.
1,000,000 Essex County, New Jersey, Tax Anticipation Notes, on a 4.40% basis.
2,500,000 Louisiana Port Commission 5% Bonds, on a 4.85% basis.
200,000 Lowell, Mass., Temporary Loan, on a 4.50% basis.
750,000 Milwaukee, Wisconsin, 5% Bonds, on a 4.60% basis.
1,000,000 Province of Manitoba 6% Debentures, on a 6.25% basis.
350,000 Salt Lake City, Utah, 5% Bonds, on a 4.50% basis.
300,000 Seattle, Washington, 5% Bonds, on a 4.80 % basis.
2,500,000 State of Maryland 4½% Bonds, on a 4.35% basis.
1,000,000 State of Tennessee 4¾% Notes, on a 4.35% basis.
638,000 Trenton, New Jersey, 5% Bonds, on a 4.65% basis.

The average price of 40 standard issues, as reported by the Wall Street Journal on August 28, was 82.93, compared with 83.19 on July 28, and 89.19 on August 28, 1917.

The Exchanges.

The feature of the foreign exchanges of late has been the rise of Italian lira. In May the lira, which has the same par value as the franc, i. e., 19.3 cents, sold in this market as low as 9.15 to the dollar, but it has risen to 6.35. There is always a good demand for

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS AUGUST 23, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	3,296	287.040	279	22,339	6,280	6,798	29,275	1,980	8,425	219	6,416	12,725	385,072
Gold Settlement Fund	79,697	103.553	48,481	67,788	27,830	19,251	81,046	34,032	11,383	30,201	7,299	42,499	553,060
Gold with foreign agencies	408	2.011	408	525	204	175	816	233	233	291	204	321	5.829
Total gold held by banks	83,401	392,604	49,168	90,652	34,314	26,224	111,137	36,245	20,041	30,711	13,919	55,545	943,961
Gold with Federal Reserve Agents	60.185	277.893	113,780	126,174	38,278	27,424	156,622	51,775	22,862	48,711	13.873	81,190	1,018,767
Gold Redemption Fund	4,070	15,000	5.000	1,007	924	2,355	4,511	2,611	2.415	1,101	1.248	81	40,323
Total gold reserves	147,656	685,497	167,948	217,833	73,516	56,003	272,270	90,631	45,318	80,523	29,040	136,816	2,003,051
Legal tender notes. Silver, etc.	2,344	43.231	730	320	802	434	1,872	607	106	402	1,182	185	52,215
Total Reserves	150,000	728,728	168.678	218,153	74.318	56,437	274,142	91,238	45.424	80,925	30,222	137,001	2,055.266
Bills discounted, Members	67,414	552.409	85,183	82,512	56,567	46,965	209,629	47,697	64,288	62,489	42,917	75,725	1,393,795
Bills bought in open mark't	26.440	125,276	11,035	26,111	5.588	3,122	14,714	1.925	435	129	634	21,117	236,526
Total bills on hand	93,854	677,685	96,218	108,623	62,155	50,087	224,343	49,622	64,723	62,618	43,551	96,842	b 1,630,321
U. S. Governm't long-term securities	942	1,453	1,348	2,560	1,233	625	4,509	1,153	122	8,871	4,347	3,461	30,624
U. S. Governm't short-term securities	1,416	10,158	1,210	1,695	1,510	991	2,112	321	926	1,239	901	1,000	23,479
All other earning assets						62							62
Total Earning Assets	96,212	689,296	98,776	112,878	64,898	51,765	230,964	51,096	65,771	72,728	48,799	101,303	1,684,486
Uncollected Items (deduct from gross deposits)	40,933	145,515	71,341	47,742	38,232	27,562	82,364	38,839	10,783	50,523	16,536	31,613	601,983
5% redemption fund against F. R. bank notes		74	50			19	200			394	137	84	958
All other resources	771	1,856	1,623	677	779	749	1,160	552	209	908	654	1,356	11,294
TOTAL RESOURCES	287,916	1,565,469	340,468	379,450	178,227	136,532	588,830	181.725	122,187	205,478	96,348	271,357	4,353,987
LIABILITIES													
Capital Paid in	6,492	20,017	7,151	8,703	3,921	3,114	10,693	3,687	2,864	3,545	3,050	4,513	77,750
Surplus	75	649			116	40	216		38				1,134
Government Deposits	21,059	19,279	13,628	20,854	6,676	9,655	26,941	9,975	1,733	11,181	9,576	22,470	173,027
Due to members—reserve account	89,839	643,645	82.559	108.363	46,225	37.581	191,793	54,758	36,369	68,319	30,321	69,708	1,459,480
Collection Items	34,088	113,354	55,041	39,078	32,111	22,501	47,553	30,176	19,393	26,690	11,621	19,341	450,947
Other deposits incld'g For. Government credits		108,002		160		11	1,272	120	36		3	2,993	112,597
Total Gross Deposits	144,986	884,280	151,228	168,455	85,012	69,748	267,559	95,029	57,531	106,190	51,521	114,512	2,196,051
F. R. Notes in actual circulation	134,157	649,650	180,426	200,159	87,767	62,722	302,269	81,825	60,607	85.958	38,079	149,218	a 2,032,837
F. R. Bank Notes in circulation, net liability		344	258			110	4,216			7,820	2,691	1,425	16,864
All other Liabilities	2,206	10,529	1,405	2,133	1,411	798	3,877	1,184	1,147	1.965	1,007	1,689	29,351
TOTAL LIABILITIES	287,916	1,565.469	340,468	379,450	178,227	136,532	588,830	181,725	122,187	205,478	96.348	271,357	4.353,987

(a) Total Reserve notes in circulation, 2,032,837.
(b) Bills discounted and bought; U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,011,627; 16—30 days 160,570; 31—60 days 228,447; 61-90 days 217,249; over 90 days 35,969. Total 1.653.862.
Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 56.7%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 73.7%.

Italian exchange in this market from our Italian population wishing to make remittances to Italy, but heavy merchandise purchases in this country and offerings of Italian drafts by South America, Paris and London had created a larger supply of exchange than could be absorbed. By concentrating all trading in an official bureau here and regulating the outside offerings, with the help of loans granted to the Italian government by Washington, the situation has been brought under control. French francs have also improved from about 5.70 in May to 5.55, a movement doubtless assisted by the disbursements on account of our Army and Red Cross in France. On the other hand Swiss francs, which have the same par value, have declined from 3.90 to the dollar in May to 4.30. The Spanish peseta, also worth nominally 19.3 cents but for many years before the war a cent or two below par, was up to 28 cents in May and is now down to about 23.7. Although all of these quotations are nearer par than they have been before this year they still show a sad state of confusion.

Reports are current that a large credit has been negotiated by this Government in Madrid, which will steady that situation, and negotiations are pending with Argentina, Uruguay, Chili, Peru, Bolivia and perhaps other South American governments, looking to the granting of credits to enable our importers to settle their debts in those countries.

In view of the appeals which our Government is making to Spain, South American countries and elsewhere, on the score of trade relations, international comity, etc., for credits to facilitate our intercourse with them, it seems a little strange that we do nothing for the relief of our good neighbor, Canada, who is in precisely the same position in her relations with us. Canada has been buying heavily of us, largely of raw materials which have entered into war work, and the balance of trade is in favor of the United States to such an extent that since last spring New York exchange has been at a premium of about 2 per cent. in all Canadian cities. The Canadian government maintains an embargo upon the exportation of gold, as our own government does, and so Canadians who have payments to make in the United States are without the ordinary facilities. They must offer somebody an inducement to create the facilities, and it costs about $2 on every $100 for them to make a payment across the boundary. The Prime Minister and Minister of Finance have made several trips to Washington about it, and have doubtless urged every argument which our own government has offered on our own behalf to Argentina, Chili and Spain. The Canadian case is really a much stronger one, for, in the first place, Canada is fighting by our side, and whatever we can do to help her bear the strain under which she is laboring will help win the war; but, further than that, our business relations with Canada are more important than with any other country. New York is the natural headquarters for this continent and Canada's surplus funds are usually employed in this market. These relationships involve obligations. It is hardly too much to say that we should be as interested in facilitating financial relations with Canada as between different sections of this country. As a means of correcting the situation the Canadian government has felt obliged to take steps restricting importations from this country.

The situation in no sense reflects upon Canada. She has a large balance in her favor on her total foreign trade, and on her trade with England, but she has imported much more from the United States than from other countries, and in the disordered state of the exchanges is unable to convert her credits elsewhere into credits in our markets. The remedy would seem to be either in having England borrow for Canada at Washington or for Washington to lend direct to Canada as it does to Italy, Belgium, France and other allies. And, finally, as considerate treatment of our best customer, and for our mutual advantage, why should we not do it? This seems to be a peculiarly opportune time to reflect upon the excellencies of the Golden Rule.

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to August 30, 1918.

Federal Reserve Bank.	Maturities. Discounts. Within 15 days, including member banks' collateral notes.	16 to 60 days, inclusive	61 to 90 days, inclusive	Agricultural and live-stock paper over 90 days.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes.	16 to 90 days, inclusive	Trade Acceptances. 1 to 60 days, inclusive	61 to 90 days, inclusive
Boston	4	4¾	4¾	5	4	4½	4½	4½
New York*	4	4¾	4¾	5	4	4½	4½	4½
Philadelphia	4	4¾	4¾	5	4	4½	4½	4½
Cleveland	4¼	4¾	4¾	5¼	4	4½	4½	4½
Richmond	4¾	5	5	5¼	4¼	4½	4¾	4¾
Atlanta	4	4¾	4¾	5	4	4½	4½	4½
Chicago	4	4¾	4¾	5½	4	4½	4½	4½
St. Louis	4	4¾	4¾	5½	4	4½	4½	4½
Minneapolis	4	4¾	5	5½	4	4½	4½	4½
Kansas City	4½	5¼	5¼	5½	4¼	4½	4¾	4¾
Dallas	4	4¾	5	5¼	4	4½	4½	4½
S'nFrancisco	4¼	5	5	5½	4¼	4½	4½	4¾

*Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.